



THE ROADS TO MONETARY STABILITY

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Philadelphia, Pa., October 7, 2023

OVERVIEW

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- FEATURES OF MONETARY INSTABILITY
- SYNOPTIC HISTORY
- FLEXIBLE EXCHANGE RATES—COMPELLING PROMISES, MISERABLE PERFORMANCES
- HOW MANY SEATS AT THE NEGOTIATING TABLE FOR MONETARY REFORM?
- MANAGING THE PRICE OF THE U.S. DOLLAR
- MANAGING THE SUPPLY OF RESERVE ASSETS AND THE U.S. DOLLAR PRICE OF GOLD

FEATURES OF MONETARY INSTABILITY

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- MORE THAN SEVENTY BANKING CRISES
- MASSIVE VARIABILITY IN PRICES OF CURRENCIES
- SHARP VARIABILITY IN PRICES OF STOCKS AND REAL ESTATE
- UNPRECEDENTED REVERSAL IN U.S. INTERNATIONAL INVESTMENT
- POSITION—FROM LARGEST CREDITOR TO LARGEST DEBTOR

SYNOPTIC HISTORY

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- World War I -WHY THE UNITED STATES BECAME A CREDITOR COUNTRY
- 1930s-MASSIVE DECLINE IN TRADE--“BEGGAR THY NEIGHBOR” POLICIES
- 1940s-IMF RULES ON MANAGING CHANGES IN THE PRICES OF CURRENCIES
- 1950 and 1960s-PERSISTENT U.S. TRADE SURPLUS/PAYMENTS DEFICIT
- 1971-U.S. OPTIONS: INCREASE U.S. GOLD PRICE OR CLOSE GOLD WINDOW

FLEXIBLE EXCHANGE RATES—COMPELLING PROMISES, MISERABLE PERFORMANCES

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- PROMISES
 - SMALLER DEVIATIONS BETWEEN MARKET AND REAL PRICES OF CURRENCIES
 - FEWER BANKING CRISES
- PERFORMANCE
 - MUCH LARGER DEVIATIONS AND MANY MORE FINANCIAL CRISES
- WHY THE PERFORMANCE DIFFERED— PROPONENTS IGNORED CROSS BORDER TRADE IN SECURITIES
 - MUCH LARGER/MANY MORE FREQUENT MONEY MARKET SHOCKS
 - MONEY MARKET SHOCKS DISRUPT GOODS MARKET EQUILIBRIUM
 - MONEY MARKET SHOCKS LEAD TO SPIKES IN ASSET MARKETS

HOW MANY SEATS AT THE TABLE?

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- WHICH POLICY OPTIONS ARE AVAILABLE TO THE UNITED STATES?
- MANAGE ACCESS TO U.S. DOLLARS
- MANAGE THE U.S. DOLLAR PRICE OF GOLD

INSULATING THE GOODS MARKETS FROM MONEY MARKET SHOCKS

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- TINBERGEN MIS-MATCH—TWO TARGETS/ONE INSTRUMENT
- POLICY RESPONSE—INTRODUCE A SECOND INSTRUMENT—
 - A SECOND EXCHANGE RATE FOR MONEY MARKET TRANSACTIONS
 - A TAX ON CROSS BORDER INVESTMENT FLOWS
 - NON-PRICE CONTROLS ON CROSS BORDER INVESTMENT INFLOWS

MANAGING INTERNATIONAL LIQUIDITY

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- A U.S. INITIATIVE TO RE-INTRODUCE GOLD AS A RESERVE ASSET
- U.S. TREASURY BUYS AND SELLS GOLD AT \$2,067 +/- 10 PERCENT

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CONCLUSION

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- FLEXIBLE EXCHANGE RATE ARRANGEMENT
- “THEORY” IS INTELLECTUALLY BANKRUPT—IGNORES CROSS-BORDER
- TRADE IN SECURITIES
- IMMENSE COST TO GLOBALIZATION—CHANGES DISRUPT GOODS
- HIGH COSTS TO U.S. ECONOMY
- SEGMENT CROSS BORDER MONEY FLOWS
- RE-INTRODUCE GOLD HAS A RESERVE ASSET