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Global Imbalances and the Key Currency Regime: The Case for a Commodity Reserve Currency

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Abstra

This pap ncy (CRC) as a serious world reserve helped to create is. The prim ains a problem posals, the CRC is o fix their price inc swings in individu float their national national resource tion of a CRC

could reduce supply constraints, stabilize costs of production, promote global effective demand from the periphery and balance growth between periphery and core countries.

Notes

[1]Other variants of this scheme were proposed by Frank Graham (see Endres, 2005, pp. 85–93), and F.A. Hayek (1943).

[2]As the outflow of private long-term capital and government grants and capital transactions exceeded the US surplus in the balance on current account, the basic balance would be in deficit. This was financed by a fall in the US gold stock and an increase in the foreign holdings of dollar assets. Confidence that the US could continue to redeem dollar holdings in gold began to wane. In 1971 the US defaulted on this commitment when Nixon closed the gold window and made the dollar inconvertible into gold.

[3]For a discussion of the distinction between these two multipliers, see McCombie (1985).

[4]Devalu … in a global sense.

[5]William … ngth of sterling … odations with the

[6]A comp … erve curre

[7]Kaldor … ove its situation … work and instead … uropean Central

[8]Kaldor … natory (Toye & Toye, …

[9]Similarly, the World Bank (2009, p. 130) recently estimated that an international stockpile to stabilize international grain prices would require 10% of global production, worth roughly $66 billion, and cost $4–6 billion to maintain ($1.4 billion in storage costs and $3–5 billion of spoilage costs based on losses in high-income countries). Total losses to all consumers from rising food prices in 2007 were estimated at $270 billion (ibid., p. 127).

[10]Indeed such a plan may provide a resolution to the Doha round of WTO negotiations by neutralizing the ability of developed country subsidies to depress world prices.

[11]The operation of the CRC would differ sharply between the initial build up period and the ensuing operation period; see Hart et al. (1964) for more details.

[12]Hart et al. proposed an initial fiduciary issue of $5 billion and a separate $5 billion bancor issue in exchange for gold, creating a bimetallic bancor standard. The assets that are attained in exchange for bancor that are not commodities could be used by the ICF to pay for storage facilities.

[13]Kaldor used this term to characterize the commodity reserve currency in a letter to Sidney Dell, 23 March 1963, cited in Toye & Toye (2004, p. 221).

[14]Kaldor's recognition of procyclicality in commodity markets goes back to his 1934 microeconomic cobweb theory of fixed quantities and flexible prices with production lags. The [illegible] nd seconda[illegible] orld the importan[illegible]

[15]Hart (1[illegible] ich the ICF stands r[illegible] ced at B$ 1,000,00[illegible] its at B$ 950,[illegible]

[16]Hart e[illegible] tely keep their cur[illegible] unduly fast rate; for[illegible]

[17]While [illegible] early 1980s, and grav[illegible] (see Kaldor, 1983, p. [illegible]), he was no less convinced of the social and economic merits of a CRC.