

405 | 10

Views | CrossRef citations to date | 2 | Altmetric

Original Articles

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

Leanne J. Ussher

Pages 403-421 | Published online: 24 Jul 2009

Cite this article <https://doi.org/10.1080/09538250903073461>

Sample our
Economics, Finance,
Business & Industry Journals

>> [Sign in here](#) to start your access to the latest two volumes for 14 days

Full Article

Figures & data

References

Citations

Metrics

Reprints & Permissions

[Read this article](#)

Abstract

This paper considers Kaldor's 1964 proposal for a commodity reserve currency (CRC) as a serious alternative to the current international monetary system. It argues that a world reserve currency would help to create a more stable and balanced international monetary system. The primary problem with the current system is that it allows core countries to create a CRC price mechanism that helps them to fix their exchange rates. This leads to a situation where core countries can float their currencies while peripheral countries are forced to maintain a fixed exchange rate. This is a national resource allocation problem. A CRC could reduce the demand from the periphery and balance growth between periphery and core countries.

We Care About Your Privacy

We and our 842 partners store and/or access information on a device, such as unique IDs in cookies to process personal data. You may accept or manage your choices by clicking below, including your right to object where legitimate interest is used, or at any time in the privacy policy page. These choices will be signaled to our partners and will not affect browsing data. [Privacy Policy](#)

We and our partners process data to provide:

Use precise geolocation data. Actively scan device characteristics for identification. Store and/or access information on a device. Personalised advertising and content, advertising and content measurement, audience research and services development.

[List of Partners \(vendors\)](#)

I Accept

Essential Only

Show Purpose



Notes

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

²As 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.

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

⁴Devaluation is effective only when it does not lead to retaliation by others in a global sense.

⁵Williams ([1943](#)) argued that even under the gold standard, it was the strength of sterling at the height of the British Empire combined with Britain's accommodations with the periphery countries that stabilized the currency regime.

⁶A comp
currency

x erve

⁷Kaldor
situation
instead
Cent

ove its
work and
European

⁸Kaldor
& Toye,

natory (Toye

⁹Similar
stockpile

tional
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).

¹⁰Indeed 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.

¹¹The 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.

¹²Hart 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.

¹³Kaldor 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).

¹⁴Kaldor'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 extension to the macro-economy and global levels with primary and secondary markets made income and effective demand in the developed world the important variable.

¹⁵Hart ([1976](#)) proposed a 10% spread between the bid and ask prices at which the ICF

stands n
1,000,00
950,000

¹⁶Hart e
their cur
rate;

¹⁷While
and grav
[1983](#), p.



People also read

Recommended articles

Cited by
10

Information for

- Authors
- R&D professionals
- Editors
- Librarians
- Societies

Opportunities

- Reprints and e-prints
- Advertising solutions
- Accelerated publication
- Corporate access solutions

Open access

- Overview
- Open journals
- Open Select
- Dove Medical Press
- F1000Research

Help and information

- Help and contact
- Newsroom
- All journals
- Books

Keep up to date

Register to receive personalised research and resources by email

 Sign me up

