THE WALL STREET JOURNAL.

http://www.wsj.com/articles/trumps-contribution-to-sound-money-1470868946

OPINION | COMMENTARY

Trump's Contribution to Sound Money

The source of trade anxiety is a broken global monetary system that distorts price signals with sharp currency moves.

By **JUDY SHELTON**
Aug. 10, 2016 6:42 p.m. ET

The surest way to become alienated from Donald Trump supporters is to invoke the word "global" with regard to trade or economic interests. Even if you embrace the Trump economic agenda for enhancing U.S. competitiveness by lowering taxes and easing regulation, even if you support an "America First" approach for tackling domestic shortcomings from education to infrastructure—there is still a negative stigma attached to proposing any kind of global economic initiative.

Yet by insisting that the U.S. Treasury label China a "currency manipulator" and by promoting trade that is both free and "fair," Mr. Trump may be laying the groundwork for a significant breakthrough in international monetary relations—one that could ultimately validate the rationale for an open global marketplace and restore genuine free trade as a vital component of economic growth.

The notion that something good might come out of a Trump policy elicits guffaws in certain economic circles. And questioning whether today's exchange-rate regime serves the cause of beneficial cross-border commerce is tantamount to advocating protectionism. Nevertheless, Mr. Trump's emphasis on currency manipulation brings into focus the shortcomings of our present international monetary system—volatility, persistent imbalances, currency mismatches—which testify to its dysfunction. Indeed, today's hodgepodge of exchange-rate mechanisms is routinely described as a "non-system." Or, as former International Monetary Fund chief Jacques de Larosière termed it at a Vienna conference in February 2014, an "anti-system."

If monetary scholars once diligently sought to explain the relative virtues of fixed-versus-flexible exchange rates on global economic performance, they have largely abdicated any responsibility for the escalating political backlash against trade that blames currency manipulation for lost business.

RELATED ARTICLES

- Monetary Reform or Trade War (http://www.wsj.com/articles/monetary-reform-or-trade-war-1461104951)
- Still Paying the Price of Keynesian Currency (http://www.wsj.com/articles/still-paying-the-price-of-keynesian-currency-1444346790)
- The Nixon Shock Heard 'Round the World (http://www.wsj.com/articles/SB10001424053111904007304576494073418802358)

No serious economist would claim today that the "dirty float" intervention tactics practiced by numerous countries would be remotely acceptable within the freely flexible exchange-rate system envisaged by Nobel Laureate Milton Friedman. Nor would anyone suggest that any coherent mechanism exists comparable with the fixed-rate system anchored by a gold-convertible dollar that reigned in the decades following World War II.

Nobel Laureate Robert Mundell has consistently argued for the restoration of a system of formally maintained exchange rates to reduce uncertainty and promote growth. Yet the lack of willingness among the great majority of economists to recognize the imperative for global monetary reform to avoid a breakdown in global trade relations has left policy makers in the lurch. Faced with mounting demands to address currency manipulation through "strong and enforceable provisions"—i.e., tariffs—those who support free trade are being forced to consider the broader implications of a sluggish world economy that has become overly reliant on central banks.

Is it more egregious when governments deliberately intervene in foreign-exchange markets to manipulate currencies to gain an export advantage—or when central banks seek to accomplish the same thing through monetary policy?

The point is that today's free-for-all approach to international monetary relations permits nations to pursue any exchange-rate policy they wish. Relative currency values are thus vulnerable not only to the manipulative tactics of government authorities, but also to the speculative maneuvering of foreign-exchange traders—the most active of which, in a market that averages $4.9 trillion in daily volume, are the world's largest banks.

No wonder so many workers employed by U.S. companies that manufacture products requiring substantial capital investment—automobiles and tractors, computer and electronic equipment—have become disenchanted with the supposed long-term benefits of free trade. It is one thing to lose sales to a foreign competitor whose product delivers the best quality for the money; it's another to lose sales as a consequence of an unforeseen exchange-rate slide that distorts the comparative prices of competing goods.

To brand trade skeptics as sore losers is to malign them unfairly. To resent being victimized by currency movements is not the same as being opposed to free trade, nor does it signal an eagerness to engage in protectionist retaliation. It's simply an honest response to incongruity: We need to reconcile global monetary arrangements with global trade aspirations.

As former Federal Reserve Chairman Paul Volcker has observed: "Trade flows are affected more by ten minutes of movement in the currency markets than by ten years of (even successful) negotiations."

Mr. Trump's forceful rhetoric may help put an end to the politically correct attitude so prevalent among economists that breezily dismisses what was once accepted as a truism: Stable exchange rates foster long-term prosperity by maximizing the productive use of economic resources and financial capital. Why continue to passively accept the negative economic consequences of global monetary disorder? Why permit legitimately earned profits from business operations and investments in foreign countries to be wiped out by unpredictable currency losses? Why hold global economic growth prospects hostage to antiquated exchange-rate arrangements?

It's time to end the intellectual vacuum and focus on serious initiatives for global monetary reform. The goal is to maximize prosperity by harnessing the power of free-market signals across borders. Monetary clarity is the key to reconciling the principles of free trade with the promised benefits of an open global marketplace.

By focusing on currency manipulation as an unfair trade practice, Mr. Trump has not only identified the crux of the economic dilemma, he has also spotlighted the social and political tensions its consequences have fostered.

Ms. Shelton, an economist, is author of "Money Meltdown" (Free Press, 1994) and co-director of the Sound Money Project at the Atlas Network, a nonprofit that promotes free markets and economic liberty.

What To Read Next...

OLYMPICS

Rio 2016: Just Give Simone Biles the Gold Medal

EDUCATION

Colleges Push Back on Student-Debt-Forgiveness Plan

JASON GAY

Last Lap for U.S. Bike Idol Evelyn Stevens

FOREIGN EXCHANGE

Textbook Failure: Why Rate Cuts Have Stopped Working on Currencies

ELECTION 2016

What Links Donald Trump’s Economy Team

TODAY'S MARKETS

Stocks Inch Higher on Retail Earnings