Jeffry Frieden

Assessment of "The Triffin Dilemma Again"

This paper argues that the key-currency role of the US dollar imposes serious costs on the rest of the world, and that the rest of the world should devise a new monetary order in response. This order would include a common currency for developed countries, and regional currency unions for developing countries. While the author accurately identifies many problems in the current international monetary system (or non-system, as it has been called), his proposed solution strikes me as virtually impossible to achieve. To assess both the likelihood of fundamental change, and the kinds of changes that might be feasible, requires a much more systematic investigation. This would include an evaluation of the costs and benefits of different monetary arrangements; of the potential supporters and opponents of such arrangements; and of the bargaining context within which such arrangements might be developed. As it stands, the paper is an impassioned, but quite preliminary, *cri de coeur* about the inadequacy of the current reality and the desirability of something different.

Campanella's analysis of the contemporary version of the "Triffin dilemma" is accurate. The role of the US dollar as a reserve currency continues to give the United States special privileges (although it might be pointed out that some of these privileges are based on the general perception of credibly consistent American monetary policy). While there are benefits to the rest of the world from the dollar's central role, these are counter-balanced by the possibility that the US will exploit its position (for example to borrow excessively) or simply that American policy will be determined without taking into account the negative externalities this policy might impose on others (such as in affecting commodity prices). All this is reasonable and in line with established thinking.

Campanella moves on to propose an alternative: a global money for developed countries, and regional monetary unions for developing countries. This is as defensible as any other such proposal – there are no glaring logical inconsistencies – but Campanella's presentation of it does not demonstrate either its desirability or its feasibility.

Campanella recognizes the desirability of exchange rate flexibility – hence his desire to see developing countries have their own regional unions – but would impose a common currency on the OECD. This despite the fact that there are major structural and cyclical differences among OECD countries. Campanella asserts that OECD countries have little effective monetary independence already – an assertion that is certainly open to a great deal of question. More generally, the paper does not adequately address the economic – and political – requirements of such a move. What are the circumstances under which the US, Australia, Japan, and the UK would agree to join with the eurozone under a global/OECD central bank? What are the costs and benefits of such a proposal? Who would support it, and who would oppose it? Is it any more than wishful thinking?

The same could be said for Campanella's proposal for developing-country regional monetary unions. The paragraph in which this is defended – on page 13 – is so full of shoulds that one wonders whether there is *any* realistic prospect for such a union *anywhere* in the world. The proposal seems, again, little more than wishful thinking.

Let me emphasize that I applaud Campanella's concern for an improvement in the structure of the international monetary system – a concern that is, I think, widely shared. However, his proposal is not presented in enough analytical detail to make a strong argument in its favor. For the proposals he puts forward to be taken seriously, we would need a much more rigorous and developed evaluation of both the economics and the politics of the contemporary scene, and of the prospects for movement in the direction Campanella desires.