

Reply to referee # 1

I really appreciated the comments by the first anonymous referee. He made some interesting points, in spite of some inaccuracies and misunderstandings.

I briefly start from the idea of the paper. The Triffin dilemma states that the reserve status of the dollar generates externalities to the rest of the world. The American monetary policy can affect other countries through different channels. I just focused on three of them: dollarization, oil prices and global imbalances.

My proposal calls for a more democratic monetary system, in which decisions concerning the international currency are shared by more countries at the same time. I suggest to create a “global money” printed in the most developed countries, because of similarities in their economic structure. The global money should be used as reserve currency and to invoice primary commodities. At the same time developing countries should create regional currency unions –the “regional money”- in order to solve problems of time inconsistency and credibility of the monetary policy, guaranteeing financial independence. It would be silly to put all together, developed and developing countries, in one currency, since they have different needs due to different economic features. I show in the paper that this system could solve the three issues I analysed.

The referee is right when he says that the global money would not be highly democratic, since developing countries would not be part of it. However he did not pay attention to the rationale of the proposal.

Firstly, the management of the reserve currency would be more democratic than now, because more countries would be part of the decision process. I do not think that allowing all the world to take part in its management would make the system more democratic. It would simply create confusion, making hard to find an agreement among so many different countries.

Secondly, creating regional currency unions in developing countries is important to preserve the exchange rate as a real shock absorber, the seignorage and the lender of last resort. These currency unions would give them more weights in the international arena. Indeed, the aim of the paper is to make more democratic the *monetary system* and not the *global money*. In every democracy there are individuals with different needs and interests. In this system there would be developed countries represented by the global money and developing countries represented by the regional currency unions. All of them would participate in the monetary system, pursuing their own goals. The current system is more “dictatorial” because the world depends on and passively follows what the US prefer to do.

For all the above reasons, I do not think that it would be wise to include China among the founders of the global money. The reason is simple. China is clearly integrated in the world economy but it is still on the way of development. Its economy is highly manufacturing oriented compared to Western economies. Therefore its interests can diverge from those of developed countries, reducing the optimal conditions for a shared currency. The current Chinese exchange rate policy against the dollar is a clear example of it. Therefore, I do not think that China is ready to be part of what I called “global money”.

I agree that some more considerations about China could be useful. Xiaochuan, governor of the People’s Bank of China, firstly suggested a rethinking of the current monetary system. In particular he stated that the world would need a reserve currency different from the American dollar. He

proposed the Special Drawing Rights issued by the IMF. However, I do not think that this is the best way to cope with the weakness of the current system, since it would not be a real currency and would be hardly used in international transactions. In addition, it could reassure Asian central banks, scared about the value of their foreign reserves, without helping to solve other issues I highlighted in the paper such as dollarization and global imbalances. However, I think that it would be interesting to add in the introduction some considerations about the Chinese proposal, linking it to the current crisis.

It is not true that I did not cover the current crisis, because it is implicitly included from page 7 to 9, even if it is not the focus of my paper. Few economists, such as Roubini, realized how dangerous could have been the international financial position of the US. The sub-prime crisis made everything clearer and the free-fall of the dollar is a clear symptom. Moreover, at the end of page 8, I explicitly speak about the sub-prime crisis, where I cite the paper by Broda et al (2009), that the referee wrongly said was included in the references but not in the paper

Of course I will fix all the typos highlighted by the referee and I will add the reference to the paper (2008).